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1971

GRANISLE COPPER LIMITED

15th annual report

DIRECTORS

W. A. Clarke
J. H. Colton
T. G. Ewart
W. H. Flynn
J. B. Harrison
A. H. Hauser
K. Kawakami
R. C. Lassiter
P. R. Matthew
G. T. Smith
R. M. Sutherland, Esq., Q.C.

OFFICERS

W. H. Flynn	Chairman of the Board
P. R. Matthew	President
J. H. Colton	Secretary and Treasurer
J. D. Balden	Assistant Treasurer

MANAGER

R. P. Taylor

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited
Vancouver, Winnipeg, Toronto and Montreal

SHARES LISTED

Toronto Stock Exchange
Vancouver Stock Exchange

To the Shareholders:

The Fifteenth Annual Report of your Company is presented herewith.

Net Income for the nine months ended September 30, 1971, was \$1,225,775, or \$.37 per share, down from \$4,129,060, or \$1.24 per share (unaudited) for

the same period in 1970. Substantially lower world copper prices, the negative effect of the increased exchange value of the Canadian dollar, and higher production costs, resulted in the lower earnings for the period.

Details of production are as follows:-

	<u>Nine Months Ended September 30</u>		<u>Year</u>
	<u>1971</u>	<u>1970</u>	<u>1970</u>
Tons Ore Treated	1,716,614	1,764,355	2,391,161
Average Tons Treated per Day	6,288	6,463	6,551
Copper Content (%)	0.55	0.56	0.55
Tons Waste Removed	1,916,668	1,375,550	1,621,221
Saleable Metal Produced:			
Copper (Lbs.)	16,286,949	17,029,438	22,791,847
Gold (Ounces)	7,655	7,871	10,545
Silver (Ounces)	73,642	70,080	94,777
Average Copper Price Received per Lb.	47.6c	64.8c	58.6c

Ore reserves are calculated to be 87.6 million tons at 0.44% copper that can be mined at an ore to waste ratio of 1:1.2.

The program for increasing the plant capacity from 6,500 to 14,000 tons per day is proceeding on schedule, with completion expected in September, 1972.

The present agreement with the Union representing the Granisle employees expires on December 31, 1971. Negotiations with the Union for a new agreement are under way.

On August 26, 1971, Zapata Norness Incorporated of Houston, Texas, acquired, through its wholly-owned British Columbia subsidiary, Zapata Re-

sources Limited, the holding of 733,050 shares of capital stock (approximately 50.75%) of The Granby Mining Company Limited previously owned by Pacific Holding Corporation of Los Angeles, California. The Granby Mining Company Limited owns, in turn, 2,243,406 shares (approximately 67.4%) of the shares of Granisle Copper Limited. Zapata Norness Incorporated is a United States corporation organized in 1954 under the laws of the State of Delaware. The company is engaged directly, or through subsidiaries, in international bulk shipping, offshore drilling of oil and gas wells, furnishing cargo boat services for offshore contractors, manufacturing of fish meal and oil, construction, and development of natural resources. Zapata Norness is a listed company on the New York and Pacific Coast Stock Exchanges.

The following changes in Directors and Officers have taken place since the Annual General Meeting held on April 22, 1971.

Messrs. W. M. Colley, J. E. Cross, W. G. Lane and R. R. Woolcott have resigned as Directors; Mr. Woolcott has also resigned as Chairman of the Board and Mr. Colley has resigned as Vice-President.

Messrs. W. H. Flynn, J. B. Harrison, R. C. Lassiter, and R. M. Sutherland, Q.C., have been elected to the Board; Mr. Flynn has been appointed Chairman of the Board of Granisle.

Mr. Flynn is Chairman of the Board and Chief Executive Officer of Zapata; Mr. Harrison is President and Chief Operating Officer for Zapata; Mr. Lassiter is Executive Vice-President, Natural Resources, of Zapata. R. M. Sutherland, Esq., Q.C., is a Senior Partner in the law firm of Fasken & Calvin, Toronto, Ontario.

At a Directors' Meeting held on November 3, 1971, it was decided to change the Company's fiscal year-end from December 31 to September 30, commencing September 30, 1971, in order to coincide with the year-end of the Company owning the majority of the shares of The Granby Mining Company Limited, Zapata Norness Incorporated.

The Annual General Meeting of the Company will be held in the Hotel Vancouver, Vancouver, British Columbia, at 2:00 p.m., on Thursday, January 27, 1972.

The Directors wish to commend the continued efforts and co-operation of all employees.

On behalf of the Board,

P. R. MATTHEW,
President.

Vancouver, British Columbia
December 16, 1971.

BALANCE SHEET

ASSETS

	<u>September 30,</u>		<u>December 31,</u>
	<u>1971</u>	<u>1970</u> <u>(unaudited)</u>	<u>1970</u>
Current assets:			
Cash and short-term bank deposits	\$ 6,361,466	9,759,236	9,195,295
Accounts receivable	259,508	181,452	106,113
Metals in concentrates, at estimated realizable value	1,970,685	1,208,269	1,544,399
Materials and supplies, at cost	929,770	749,023	765,285
Prepaid expenses	83,609	89,231	22,305
Total current assets	9,605,038	11,987,211	11,633,397
Refundable deposits	415,985	501,273	415,985
Property, plant and equipment, at cost (Note 2)	16,087,684	14,220,476	14,415,378
Less accumulated depreciation and depletion	<u>5,359,267</u>	<u>3,992,515</u>	<u>4,355,438</u>
Net property, plant and equipment	10,728,417	10,227,961	10,059,940
Mine development and pre-production expenditure, less amortization (Note 2)	<u>59,017</u>	<u>536,983</u>	<u>417,487</u>
	<u>\$20,808,457</u>	<u>23,253,428</u>	<u>22,526,809</u>

See accompanying notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

		September 30,	December 31,
		1971	1970
			(unaudited)
Current liabilities:			
Accounts payable and accrued charges.....	\$	951,137	653,482
Income taxes payable.....		140,744	1,352,774
			1,056,849
Total current liabilities.....		1,091,881	2,006,256
			1,546,969
Deferred income taxes (Note 3).....		680,000	64,000
			135,000
Shareholders' equity:			
Capital stock:			
Shares of no par value. Authorized 4,000,000 shares;			
issued 3,329,919 shares.....		2,594,982	2,594,982
Retained earnings, per accompanying statement.....		16,441,594	18,588,190
			18,249,858
Total shareholders' equity.....		19,036,576	21,183,172
			20,844,840
Commitments (Note 7).			
		\$20,808,457	23,253,428
			22,526,809
On behalf of the Board:			
WILLIAM H. FLYNN, Director			
P. R. MATTHEW, Director			

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Granisle Copper Limited as of September 30, 1971 and the statements of earnings, retained earnings and source and application of funds for the nine months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at September 30, 1971 and the results of its operations and the source and application of its funds for the nine months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
November 29, 1971

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

STATEMENT OF EARNINGS

	Nine months ended September 30,		Year ended December 31,
	1971	1970 (unaudited)	1970
Value of production of copper, gold and silver.....	\$ 7,532,900	10,806,458	13,015,480
Cost of production, including administration.....	4,314,133	4,015,705	5,432,876
Depreciation and depletion.....	1,058,543	1,025,404	1,388,327
Amortization of pre-production expenditure.....	358,470	358,470	477,966
Loss on U.S. exchange (Note 4).....	—	438,080	438,080
	<u>5,731,146</u>	<u>5,837,659</u>	<u>7,737,249</u>
Operating profit.....	1,801,754	4,968,799	5,278,231
Investment and other income.....	<u>309,021</u>	<u>574,261</u>	<u>776,453</u>
Earnings before income taxes.....	2,110,775	5,543,060	6,054,684
Provision for income taxes (Note 3):			
Current.....	340,000	1,350,000	1,110,000
Deferred.....	<u>545,000</u>	<u>64,000</u>	<u>135,000</u>
	<u>885,000</u>	<u>1,414,000</u>	<u>1,245,000</u>
Net earnings for the period (Note 6).....	<u>\$ 1,225,775</u>	<u>4,129,060</u>	<u>4,809,684</u>
Net earnings per share.....	\$ <u>.37</u>	<u>1.24</u>	<u>1.44</u>
Cash dividends per share in U.S. dollars.....	\$ <u>.90</u>	<u>.90</u>	<u>1.20</u>
Number of shares outstanding.....	<u>3,329,919</u>	<u>3,329,919</u>	<u>3,329,919</u>

STATEMENT OF RETAINED EARNINGS

	Nine months ended September 30,		Year ended December 31,
	1971	1970 (unaudited)	1970
Balance at beginning of period.....	\$18,249,858	17,623,385	17,623,385
Net earnings for the period.....	<u>1,225,775</u>	<u>4,129,060</u>	<u>4,809,684</u>
	19,475,633	21,752,445	22,433,069
Deduct cash dividends.....	<u>3,034,039</u>	<u>3,164,255</u>	<u>4,183,211</u>
Balance at end of period.....	<u>\$16,441,594</u>	<u>18,588,190</u>	<u>18,249,858</u>

See accompanying notes to financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Nine months ended September 30,		Year ended December 31,
	<u>1971</u>	<u>1970</u> (unaudited)	<u>1970</u>
Funds provided by:			
Operations:			
Net earnings for the period	\$ 1,225,775	4,129,060	4,809,684
Depreciation, depletion and amortization	1,417,013	1,383,874	1,866,293
Deferred income taxes	545,000	64,000	135,000
Other	<u>8,314</u>	<u>(112,245)</u>	<u>(112,245)</u>
Funds provided by operations	3,196,102	5,464,689	6,698,732
Disposal of equipment	<u>30,080</u>	<u>347,034</u>	<u>347,034</u>
Total funds provided	<u>3,226,182</u>	<u>5,811,723</u>	<u>7,045,766</u>
Funds applied to:			
Purchase of property, plant and equipment	1,765,414	1,875,493	2,070,395
Increase (decrease) in non-current assets	—	30,000	(55,288)
Dividends paid	<u>3,034,039</u>	<u>3,164,255</u>	<u>4,183,211</u>
Total funds applied	<u>4,799,453</u>	<u>5,069,748</u>	<u>6,198,318</u>
Increase (decrease) in working capital	(1,573,271)	741,975	847,448
Working capital at beginning of period	<u>10,086,428</u>	<u>9,238,980</u>	<u>9,238,980</u>
Working capital at end of period	<u>\$ 8,513,157</u>	<u>9,980,955</u>	<u>10,086,428</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS September 30, 1971

1. Current assets in United States dollars have been converted into Canadian dollars at the rate of exchange prevailing at the respective balance sheet dates.

2. **Property, plant and equipment:**

Particulars of the cost of the property, plant and equipment are as follows:

	<u>September 30,</u>		<u>December 31,</u>
	<u>1971</u>	<u>1970</u> <u>(unaudited)</u>	<u>1970</u>
Mineral claims	\$ 65,099	65,099	65,099
Land	23,839	23,839	23,839
Mine buildings and equipment	13,222,566	11,503,315	11,698,217
Mobile and other equipment	<u>2,776,180</u>	<u>2,628,223</u>	<u>2,628,223</u>
	<u>\$16,087,684</u>	<u>14,220,476</u>	<u>14,415,378</u>

Depreciation of the mine buildings and equipment has been calculated on the straight-line method at 8% on cost. No depreciation has been provided on plant under construction. Depreciation of the mobile equipment has been calculated on the diminishing-balance method at 30%.

Amortization of pre-production expenditure has been calculated on the straight-line method at 20% and the balance of these costs will be fully amortized by November 30, 1971.

3. **Income taxes:**

The depreciation and amortization which will be claimed for income tax purposes will exceed the amount recorded in the accounts and accordingly a provision has been made for the income taxes which have been deferred. Depreciation and amortization had been provided during the tax-free period which did not have to be claimed for income tax purposes and as a result the provision for deferred income taxes for the nine months ended September 30, 1970 and the year ended December 31, 1970 has been reduced by \$1,080,000 and \$1,390,000 respectively.

4. **Loss on U.S. exchange:**

On May 31, 1970, the Canadian dollar was unpegged and the effect of this revaluation was to reduce the value of the current assets in U.S. dollars at that date by \$438,080.

5. **Administration expenses:**

Remuneration of directors and senior officers (as defined in the British Columbia Securities Act) amounted to \$96,540 in the nine months ended September 30, 1971 (\$126,220 in the year ended December 31, 1970).

6. **Net earnings:**

Operating results for a nine month period are not necessarily indicative of results for a calendar year due mainly to fluctuations in the price of copper.

7. **Commitments:**

The company is expanding its mining facilities at Babine Lake, British Columbia, at an estimated cost of \$8,700,000. At September 30, 1971, total expenditure incurred on this expansion was \$1,663,842 and capital commitments amounted to approximately \$3,000,000.

